

**CITY OF KIRWIN**

**Kirwin, Kansas**

**FINANCIAL STATEMENT WATER UTILITY FUND AND  
INDEPENDENT AUDITOR'S REPORT**

**December 31, 2011**

**MAPES & MILLER  
Certified Public Accountants  
Phillipsburg, Kansas 67661**

**CITY OF KIRWIN  
Kirwin, Kansas**

**December 31, 2011**

**City Council**

**Linda Roth  
Larry Bedore  
Donnie Loyd  
Todd Lumpkin  
Judy Stockman**

**Brenda Loyd, Mayor**

**Susan Bedore  
Robert Westbrook**

**City Clerk  
City Treasurer**

**CITY OF KIRWIN  
Kirwin, Kansas**

**For the Year Ended December 31, 2011**

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# **MAPES & MILLER LLP**

**CERTIFIED PUBLIC ACCOUNTANTS**

A PARTNERSHIP OF PROFESSIONAL CORPORATIONS

JOHN D. MAPES, CPA, CHTD  
DENIS W. MILLER, CPA, PA  
THOMAS B. CARPENTER, CPA, PA  
DON E. TILTON, CPA, PA  
BRIAN S. THOMPSON, CPA, PA  
REBECCA A. LIX, CPA, PA

418 E HOLME  
NORTON, KS 67654  
(785)877-5833

P.O. BOX 266  
711 3<sup>RD</sup> STREET  
PHILLIPSBURG, KS 67661  
(785)543-6561

P.O. BOX 508  
503 MAIN STREET  
STOCKTON, KS 67669  
(785)425-6764

306 N POMEROY  
HILL CITY, KS 67642  
(785)421-2163

PO BOX 412  
QUINTER, KS 67752  
(785)754-2111

117 N MAIN ST  
WAKEENEY, KS 67672  
(785)543-5513

## **INDEPENDENT AUDITOR'S REPORT**

**Mayor and City Council  
City of Kirwin  
Kirwin, Kansas 67644**

We have audited the summary statement of cash receipts, expenditures, and unencumbered cash balances of the primary government's Water Utility Enterprise Fund of the City of Kirwin, Kansas, as of and for the year ended December 31, 2011, as listed in the table of contents. This financial statement is the responsibility of the City of Kirwin, Kansas' management. Our responsibility is to express an opinion on this financial statement based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the guidance in the Kansas Municipal Audit Guide. Those standards and guidance require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statement does not include financial data for the City's legally separate component units. Accounting principles generally accepted in the United States of America require the financial data for those component units to be reported with the financial data of the City's primary government unless the City also issues financial statement for the financial reporting entity that include the financial data for its component units. The City has not issued such reporting entity financial statement. The effect on the financial statement of the omission of the component units, although not reasonably determinable, is presumed to be material.

As described more fully in Note 1, the City of Kirwin, Kansas has prepared this financial statement using accounting practices prescribed by the State of Kansas to demonstrate compliance with the cash basis and budget laws of the State of Kansas, which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statement of the variances between these statutory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Mayor and City Council  
Kirwin, Kansas  
November 6, 2012  
Page Two

As discussed in Note 1, the financial statement presents only the Water Utility Enterprise Fund of the City of Kirwin, Kansas and does not purport to, and does not present fairly the financial position of the City of Kirwin, Kansas, as of December 31, 2011, and changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, because of the omission of the discretely presented component units, as discussed above, and because of the effects of the matter discussed in the preceding paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City of Kirwin, Kansas as of December 31, 2011, or the respective changes in financial position for the year then ended.

We were unable to trace customer payments on water receipts to the general ledger. We were unable to apply other auditing procedures to satisfy ourselves regarding these customer accounts. Accordingly, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the accompanying statement for the City's Water Utility Enterprise Fund for the year ended December 31, 2011.

Our audit was conducted for the purpose of forming an opinion on the financial statement. The summary of expenditures-actual and budget and individual fund schedules of cash receipts and expenditures-actual and budget, (Schedules 1 and 2 as listed in the table of contents) are presented for analysis and are not a required part of the statutory financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the financial statement is fairly stated in all material respects in relation to the financial statement as a whole.

Respectfully submitted,

*Mapes & Miller LLP*  
Certified Public Accountants

November 6, 2012  
Phillipsburg, Kansas

CITY OF KIRWIN  
Kirwin, Kansas

Statement 1

SUMMARY OF CASH RECEIPTS, EXPENDITURES, AND UNENCUMBERED CASH  
For the Year Ended December 31, 2011

FUNDS	Beginning Unencumbered Cash Balance	Prior Year Cancelled Encumbrances	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
Proprietary Type Funds:							
Enterprise Funds							
Water Utility Fund	\$ (17,061) *	\$ -	\$ 73,812	\$ 38,712	\$ 18,039	\$ 10,753	\$ 28,792
All Other City Funds							73,318
Total Primary Government							\$ 102,110
Composition of Cash:							
Cash on Hand							\$ 150
Checking Account							18,603
Money Market Account							83,357
Total Primary Government							\$ 102,110

\* See Note 5A (Cash Basis Exception)

The notes to the financial statement are an integral part of this statement.

**CITY OF KIRWIN**  
**Kirwin, Kansas**

**NOTES TO FINANCIAL STATEMENT**  
**December 31, 2011**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**REPORTING ENTITY**

The City of Kirwin, Kansas, the primary government operates as a third class city in accordance with the laws of the State of Kansas. The City operates under a mayor-council form of government and provides the following services: public safety (police and fire protection), highways and streets, water, sewer, sanitation, health and social services, culture and recreation services, planning and zoning, public improvements, and general administrative services. The accompanying statement reflects only the Water Utility Enterprise Fund of the City of Kirwin, Kansas.

Generally accepted accounting principles require government financial statements to include the primary government and its component units. Component units of a governmental entity are legally separate entities for which the primary government is considered to be financially accountable and for which the nature and significance of their relationship with the primary government are such that exclusion would cause the combined financial statements to be misleading or incomplete. The primary government is considered to be financially accountable if it appoints a majority of an organization's governing body and imposes its will on that organization. The primary government may also be financially accountable if an organization is fiscally dependent on the primary government, regardless of the authority of the organization's governing board.

Based on the application of the criteria set forth by the Governmental Accounting Standards Board, management has determined that the Library is a component unit of the City. Financial information for the component unit has not been reported in the City's financial statements. Accordingly, these financial statements present the activities of the primary government only and are not a complete presentation in accordance with generally accepted accounting principles.

The governing bodies of the following are appointed by the City:

- 1) Library. The City of Kirwin Library Board operates the City's Public Library. Acquisition or disposition of real property by the board must be approved by the City. The City levies taxes for the Library. Bond issuances must be approved by the City.

The component unit's unaudited financial statements can be obtained from the City Clerk.

**FUND ACCOUNTING**

The accounts of the City are organized on the basis of funds. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. Funds are classified into three categories: governmental, proprietary, and fiduciary. Within each of these three categories there are one or more fund types. The Water Utility Fund is the following fund type:

## Proprietary Type Funds

**Enterprise Funds** - Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the stated intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where periodic determination of revenues earned, expenses incurred and/or net income is deemed appropriate for capital maintenance, public policy, management control, accountability or other purposes.

## BASIS OF ACCOUNTING

**Statutory Basis of Accounting** - The statutory basis of accounting, as used in the preparation of these statutory basis financial statements, is designed to demonstrate compliance with the cash basis and budget laws of the State of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund, and an expenditure would be charged in the fund from which the transfer is made.

The City has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the municipality to use the statutory basis of accounting.

**Departure from Accounting Principles Generally Accepted in the United States of America-** The basis of accounting described above results in a financial statement presentation which shows cash receipts, expenditures, and cash and unencumbered cash balances. Balance sheets that would have shown noncash assets such as receivables, inventories, and prepaid expense, liabilities such as deferred revenue and matured principal and interest payable, and reservations of the fund balance are not presented. Under accounting principles generally accepted in the United States of America, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with generally accepted accounting principles in the United States of America. Capital assets that account for the land, buildings, and equipment owned by the City are not presented in the financial statements. Also, long-term debt such as general obligation bonds, capital leases, temporary notes, and compensated absences are not presented in the financial statements.

## LEAVE POLICIES

### Vacation Pay

City employees, who have worked at least one year but less than ten years receive ten days of vacation per year. An employee who has worked at least ten years receives fifteen days paid vacation per year. Vacation time is added on the anniversary date and may accumulate to a maximum of twenty days. Vacation days are paid to the employees upon termination of employment.



### Sick Pay

Each full time employee is credited with one sick day per month with a maximum accumulation of thirty days. Part time employees who work at least 100 hours per month earn four hours of sick leave per month with a maximum accumulation of sixteen days. Sick leave is not paid upon termination of employment.

### Compensatory Pay

City employees who work over forty hours in any week may receive compensatory time off in lieu of pay for overtime hours worked. Compensatory time is calculated at one and one-half times the hours of overtime.

The total cost of the accumulated vacation accrued as of December 31, 2011 is shown on Note 9, and will be recorded as an expenditure at the time the leave is utilized as normal personal services expenditures.

### REIMBURSEMENTS

Reimbursements are defined as repayments of amounts remitted on behalf of another party. All reimbursements shown in the financial statements meet the following criteria: 1) the related disbursement was made in the current year on behalf of the payee, 2) the item paid for was directly identifiable as having been used by or provided to the payee, and 3) the amount of the reimbursement was directly tied to the amount of the original cash disbursement.

## **2. BUDGETARY INFORMATION**

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special revenue funds (unless specifically exempted by statute), debt service funds, and enterprise funds. Although directory rather than mandatory, the statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding calendar year on or before August 1<sup>st</sup>.
2. Publication in local newspaper on or before August 5<sup>th</sup> of the proposed budget and notice of public hearing on the budget.
3. Public hearing on or before August 15<sup>th</sup>, but at least ten days after publication of notice hearing.
4. Adoption of the final budget on or before August 25<sup>th</sup>.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication, the hearing may be held and the governing body may amend the budget at that time. There were no such budget amendments for the year ended December 31, 2011.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the statutory basis of accounting, in which revenues are recognized when cash is received, and expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. Any unused budgeted expenditure authority lapses at year end.

A legal operating budget is not required for capital projects funds, fiduciary funds, and permanent funds.

Spending in funds which are not subject to the legal annual operating budget requirements is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

### **3. PROPERTY TAXES**

Property taxes are levied November 1<sup>st</sup> of the calendar year. A lien is placed on the property when the taxes are levied. The taxes are due ½ on December 20<sup>th</sup> and ½ the following May 10<sup>th</sup>. Any taxes unpaid at the due dates are considered delinquent. Collection of current year property tax by the County Treasurer is not completed, apportioned nor distributed to the various subdivisions until the succeeding year: such procedure being in conformity with governing state statutes. Consequently, current year property taxes receivable are not available as a resource that can be used to finance the current year operation of the City and therefore are not susceptible to accrual.

It is not practical to apportion delinquent taxes held by the County Treasurer at the end of the audit period and, further, the amounts thereof are not material to the financial statements taken as a whole.

### **4. COMPLIANCE WITH KANSAS STATUTES**

- A. K.S.A. 10-1117 requires the clerk to maintain a record of each funds' indebtedness and contracts creating a liability against the City. The records did not include the City's fund indebtedness and contracts for the year ended December 31, 2011, violating K.S.A. 10-1117.
- B. K.S.A. 12-822 requires interest to be paid or credited on utility deposits at the rate set by the Kansas Corporation Commission. The City did not pay interest or give credit on the utility deposits during the year ended December 31, 2011, violating K.S.A. 12-822.

- C. K.S.A. 12-1608 requires annually published financial statements showing, by fund: beginning and ending balances, receipts, and expenditures along with obligation/liability information. The City did not publish financial statements for the year ended December 31, 2011, violating K.S.A. 12-1608.
- D. The City is not aware of any other non-compliance with Kansas statutes for the year ended December 31, 2011.

## **5. CASH BASIS EXCEPTION**

- A. Authority is authorized under K.S.A. 74-8905 and the Loan Act to issue revenue bonds for the purpose of providing funds to implement the State's requirements under the Federal Act and to loan the same, together with available funds from the EPA capitalization grants, to cities within the State for the payment of Project Costs. The City had a negative unencumbered cash balance in the Water Utility Fund at January 1, 2011, because the City must expend monies before they can receive the loan proceeds. K.S.A. 10-1116 provides an exception from a cash-basis law violation for the issuance of bonds. The City expended monies with the expectation of monies being reimbursed under conditions of the KDHE loan agreement.

## **6. DEPOSITS AND INVESTMENTS**

### **Deposits**

K.S.A. 9-1401 establishes the depositories which may be used by the City. The statute requires banks eligible to hold the City's funds have a main or branch bank in the county in which the City is located or in an adjoining County, if such an institution has been designated as an official depository and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The City has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the City's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The City has no investment policy that would further limit its investment choices.

### **Concentration of Credit Risk**

State statutes place no limit on the amount the City may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

### **Custodial Credit Risk – Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require the City's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during the designated "peak periods" when required coverage is 50%. All deposits were legally secured at December 31, 2011.

At December 31, 2011, the City's carrying amount of deposits was \$ 101,960 and the bank balance was \$ 102,001. The bank balance was held by one bank resulting in a concentration of credit risk. Of the bank balance \$ 102,001 was covered by federal depository insurance.

#### Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured.

### **7. OTHER POST EMPLOYMENT BENEFITS**

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the City makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured. There is no cost to the City under this program.

### **8. RISK MANAGEMENT**

The City of Kirwin is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets, errors and omissions; injuries to employees; and natural disaster. The City continues to carry commercial insurance coverage to cover these risks. The City has had no significant reduction in insurance coverage from prior years. Settled claims resulting from these risks have not exceeded commercial insurance coverage for each of the past three years.

## 9. LONG-TERM DEBT

Changes in long-term debt for the City for the year ended December 31, 2011, were as follows:

Issue	Interest Rates	Date of Issue	Amount of Issue	Date of Final Maturity	Beginning Balance 1/1/2011	Additions	Reductions/ Payments	Net Change	Ending Balance 12/31/2011	Interest/ Service Fees Paid
<b>KDHE Loan</b>										
Water Pollution Control	2.83%	10/11/2004	\$ 166,827	2030	\$ 145,658	\$ 16,807	\$ 7,082	\$ -	\$ 155,383	\$ 4,015
Public Water Supply	3.77%	9/11/2009	218,996	2031	184,449	35,610	62,895 *	-	157,164	3,555
Total KDHE Loans			<u>\$ 385,823</u>		<u>330,107</u>	<u>52,417</u>	<u>69,977</u>	<u>-</u>	<u>312,547</u>	<u>7,570</u>
<b>Compensated Absences Accumulated Vacation</b>					<u>1,405</u>	<u>-</u>	<u>-</u>	<u>202</u>	<u>1,607</u>	<u>-</u>
Total Long-Term Debt					<u>\$ 331,512</u>	<u>\$ 52,417</u>	<u>\$ 69,977</u>	<u>\$ 202</u>	<u>\$ 314,154</u>	<u>\$ 7,570</u>

Current maturities of long-term debt and interest for the next five years and in five year increments through maturity are as follows:

Year	KDHE Loan	
	Principal	Interest
2012	\$ 12,015	\$ 10,290
2013	12,477	9,829
2014	12,887	9,419
2015	13,312	8,994
2016	13,751	8,555
2017-2021	75,878	35,651
2022-2026	89,301	22,227
2027-2031	82,926	6,603
	<u>\$ 312,547</u>	<u>\$ 111,568</u>

\* This amount includes \$56,675 of principal that was forgiven by the State of Kansas and \$1,063 in refunds that were applied to the principal balance of the loan.

**CITY OF KIRWIN, KANSAS**  
**SUPPLEMENTARY INFORMATION**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

**CITY OF KIRWIN**  
**Kirwin, Kansas**

**Schedule 1**

**SUMMARY OF EXPENDITURES - ACTUAL AND BUDGET**  
**(Budgeted Funds Only)**  
**For the Year Ended December 31, 2011**

<u>FUNDS</u>	<u>Certified Budget</u>	<u>Adjustment for Qualifying Budget Credits</u>	<u>Total Budget for Comparison</u>	<u>Expenditures Chargeable to Current Year</u>	<u>Variance Over (Under)</u>
Proprietary Type Funds:					
Enterprise Funds					
Water Utility Fund	\$ 40,624	\$ -	\$ 40,624	\$ 38,712	\$ (1,912)

CITY OF KIRWIN  
Kirwin, Kansas

Schedule 2  
Page 2-1

**SCHEDULE OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET**  
For the Year Ended December 31, 2011

**WATER UTILITY FUND**

	Actual	Budget	Variance Over (Under)
<b>CASH RECEIPTS</b>			
Customer Charges	\$ 35,359	\$ 33,000	\$ 2,359
Water Plan	182	300	(118)
Enrev	1,320	400	920
Installation	16	500	(484)
Water Meter Deposits	775	-	775
Loan Proceeds	35,610	-	35,610
Reconnect Fees	550	-	550
	<u>73,812</u>	<u>\$ 34,200</u>	<u>\$ 39,612</u>
<b>EXPENDITURES</b>			
Salaries & Wages	2,864	\$ 13,000	\$ (10,136)
Fuel	124	1,300	(1,176)
Utilities	3,996	4,000	(4)
Insurance	230	2,000	(1,770)
Fees & Workshops	3,046	400	2,646
Repairs	6,559	3,997	2,562
Parts & Supplies	4,394	740	3,654
Water Protection Fee	297	250	47
Sales Tax	-	275	(275)
Chlorine	-	450	(450)
Enrev	225	300	(75)
Postage	25	250	(225)
Water Testing	410	250	160
Publication	-	50	(50)
Employee Benefits	-	3,000	(3,000)
Mileage	49	250	(201)
Contract Labor	2,977	300	2,677
Water Meter Refund	275	-	275
Loan Principal	5,157	4,128	1,029
Interest and Service Fees	3,555	4,584	(1,029)
Water	-	1,100	(1,100)
Engineering	4,529	-	4,529
	<u>38,712</u>	<u>\$ 40,624</u>	<u>\$ (1,912)</u>
Cash Receipts Over (Under) Expenditures	35,100		
UNENCUMBERED CASH, January 1, 2011	<u>(17,061) *</u>		
UNENCUMBERED CASH, December 31, 2011	<u>\$ 18,039</u>		

\* See Note 5A (Cash Basis Exception)